

**Senate Commerce Committee Amendment**

**AMENDMENT NO.** \_\_\_\_\_

\_\_\_\_\_  
**Signature of Sponsor**

**AMEND Senate Bill No. 2688\***

**House Bill No. 3111**

**FILED**

Date \_\_\_\_\_

Time \_\_\_\_\_

Clerk \_\_\_\_\_

Comm. Amdt. \_\_\_\_\_

by deleting all language after the enacting clause and by substituting instead the following:

Section 1. Tennessee Code Annotated, Title 56, Chapter 19, is amended by adding the following new section:

A state malpractice insurance company organized under Tennessee law may become a state stock malpractice insurance company operating under the provisions of Chapter 19 of this title pursuant to a plan and procedure which is approved in advance by the commissioner. The commissioner shall not approve any such plan or procedure unless:

(1) The plan or procedure is equitable to the insurer's policyholders;

(2) The plan or procedure is subject to approval by vote of not less than three-fourths (3/4) of the votes cast in person, by proxy, or by mail at a meeting of policyholders called for the purpose pursuant to such notice and procedure as may be approved by the commissioner;

(3) The equity of each policyholder in the insurer is determinable under a fair formula approved by the commissioner. Such equity shall be based upon not less than the insurer's entire surplus, after deducting contributed or borrowed surplus funds and any outstanding guaranty capital securities, plus a reasonable present equity in its reserves and in all nonadmitted assets;

(4) The policyholders entitled to receive stock upon conversion and to participate in the purchase of additional stock, if any, include all policyholders having policies in force on the date of conversion;

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(5) The plan provides that each policyholder of the insurer specified in subdivision (4) shall receive a proportionate part of the capital stock to be issued in respect to the policyholders' equity. The plan also gives to each such policyholder a nontransferable preemptive right to acquire a proportionate part of any additional capital stock to be issued and sold by the insurer, within a designated reasonable period. In addition to the issuance of shares with respect of the policyholders' equity, if the insurer has outstanding guaranty capital securities, the plan shall require the sale of a sufficient number of shares (at the same price per share as all other shares issued under the plan) to retire such guaranty capital securities. To the extent each policyholder specified in subdivision (4) does not exercise the preemptive right to purchase a pro rata number of shares to retire the guaranty capital securities, the holders of the guaranty capital securities shall have the right to convert the securities (including all accrued interest) into shares of capital stock at such price;

(6) Shares are so offered to policyholders at a price not greater than that thereafter offered to others nor at more than five (5) times the par value of the shares; and

(7) The plan, when completed, would provide for the converted insurer paid-in capital stock in an amount not less than the minimum paid-in capital required of a state stock insurer under Chapter 19 of this title; provided, however, this provision does not apply to any converting mutual companies which were qualified and authorized under this chapter prior to May 7, 1969.

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Section 2. This act shall take effect upon becoming law, the public welfare  
requiring it.